

Kentucky Tax Alert



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Revenue Cabinet Wins Hammer Award

KRC, together with the Internal Revenue Service (IRS) and the Indiana Department of Revenue, recently received Vice President Al Gore's Hammer Award for its federal/state TeleFile program. The agencies together developed a program allowing taxpayers to file both their federal and state individual income tax returns at the same time using the existing IRS TeleFile system—"One Call Does It All."

"The Kentucky Revenue Cabinet is proud to receive the Vice President's Hammer Award," said KRC Secretary Mike Haydon. "Our alternatives to the traditional paper method of filing individual income tax returns continue to gain in popularity. For the 2000 filing season, Kentucky experienced a whopping 32 percent increase in electronic filing and a 34 percent increase in telephone filing."

Through Aug. 15, 2000, more than 400,000 of the nearly 1.8 million 1999 individual income tax returns were filed electronically or by telephone. In its second year of offering TeleFile, KRC received nearly 55,000 returns filed by phone.

Online filing, a new offering for the 1999 tax year, drew nearly 30,000 returns.

With 25 percent of its returns being filed electronically or by phone, Kentucky ranked seventh in the nation in percentage of filers not using paper.

"These technological advancements in the filing of individual income tax returns fit well into Governor Paul

Patton's *EMPOWER Kentucky* initiatives to achieve operational efficiencies, cost reductions, and improved service delivery through new technology," said Secretary Haydon. "Filing electronically, via phone, or online allows taxpayers to receive refunds faster and eliminates manual processing of paper returns. We want to thank those Kentuckians who participated in the various modernized filing programs and encourage others to do so. We look forward to the continued success and growth of these programs, which have placed Kentucky among the leading states in modern filing methods," Haydon added.

KRC, in partnership with the IRS, began processing electronic returns in 1994. Filing by telephone began in 1999 while Internet filing began in 2000.

The Hammer Award is a special award given by the vice president to people who have participated in a team effort that has contributed dramatically to improving the way government works. The award is presented by the vice president and the National Partnership for Reinventing Government and is the answer to yesterday's government and its \$400 hammer. Fittingly, the award consists of a \$6 hammer, a ribbon, and a note from Vice President Gore, all in an aluminum frame. KRC employees received the award Sept. 20, 2000, in a ceremony at IRS headquarters in Washington, D.C.



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Kentucky's Pension Exclusion, Standard Deduction Increase for 2001 Tax Year

Kentucky's individual income tax pension exclusion for the 2001 tax year is increasing to \$37,500. This exclusion applies to tax returns due April 15, 2002, and takes effect on Jan. 1, 2001.

Retirees who make quarterly estimated Kentucky individual income tax payments should take this revised pension exclusion into effect when calculating their quarterly payments for 2001. The first payment is due on April 15, 2001.

For the 2000 tax year, for which returns are due on April 16, 2001, the pension exclusion is \$36,414.

The revision is made pursuant to KRS 141.0105, which requires KRC to adjust the exclusion annually for inflation.

Additionally, Kentucky's standard deduction for individual income tax increases from \$1,700 to \$1,750 for the 2001 tax year as authorized by KRS 141.081(2). Taxpayers who do not itemize deductions on their individual income tax return are entitled to claim the standard deduction.



KRC Participates in Treasury Offset Program

In 1998, Congress passed the Internal Revenue Service Restructuring and Reform Act. Part of the provisions of this act allows for the reduction or offset of federal tax refunds to pay past due, legally enforceable state income tax liabilities. The act required the Department of the Treasury to design procedures necessary to collect state income tax liabilities by Jan. 1, 2000, as part of the centralized offset program operated by the Financial Management Service (FMS), a bureau of the Department of the Treasury.

Under the provisions of this act, states must attempt to notify taxpayers via certified mail of the impending offset of their refund. This notification language is included in the *Final Notice Before Seizure* letter that is sent to taxpayers.



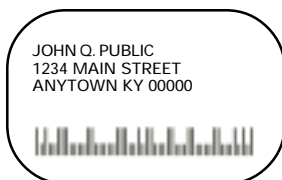
KRC began participation in this program in February 2000, becoming only the seventh state to submit debts. Debts have been submitted to FMS on a weekly basis since that date. Through the end of September 2000, KRC has collected a total of \$541,500 on this program. Full participation in this program will be in place for the 2001 tax filing season and collections should increase as more taxpayers become eligible for offset and are placed with FMS.

KRC Again Using Bar-Coded Labels on Individual Income Tax Returns

For the 2000 individual income tax year, KRC is again using preprinted, bar-coded address labels. These labels are used in conjunction with KRC's Automated Refund and Tax Information System (ARTIS), which allows taxpayers to verify that KRC received their returns and to check on the status of refunds by touch-tone telephone.

With the bar-coded labels, KRC reduces the amount of time required to acknowledge receipt of a taxpayer's return from eight weeks to as short a time as 24 hours. Use of the labels also results in faster processing.

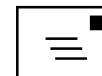
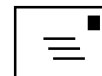
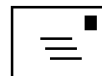
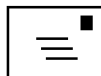
Two preprinted labels are included with the tax packets or label postcards KRC mails to taxpayers. Each label contains the taxpayer's name, address, and taxpayer identification number (Social Security number) embedded in a scannable bar code. In response to taxpayer concerns and federal regulations, the taxpayer identification number is not visible on the labels mailed to taxpayers.



Use of the bar-coded labels does **not** increase the likelihood of a taxpayer being audited by KRC.

Upon receipt of an individual income tax return, KRC scans the bar-coded label and the information is uploaded to ARTIS. Taxpayers may then call ARTIS at (502) 564-1600 to verify that KRC received the return. Acknowledgment of receipt is available within 24 hours during nonpeak processing times for taxpayers using labels, and within 72 hours during peak times. For taxpayers not using either label, information from ARTIS is not available until the return is processed.

Taxpayers receiving labels with an incorrect address may use these labels, but should correct the address on the label. Taxpayers receiving address labels with an incorrect name should not use the labels. They should instead print the requested information in the space provided on the return.



Electronic Commerce Notes of Interest

Electronic Filing (ELF) of Tax Returns

In cooperation with the Internal Revenue Service (IRS), KRC will again offer electronic filing of individual income tax returns for the 2000 tax year. Authorization for electronic filing of Kentucky full-year resident returns is available to all interested preparers who:

- (1) are accepted in the federal electronic filing program;
- (2) transmit returns to the IRS Cincinnati Service Center;
- (3) use software approved for Kentucky electronic filing; and
- (4) pass KRC suitability checks.

Preparers who wish to participate in the coming year should submit federal Form 8633, *Application to Participate in the Electronic Filing Program*, to the IRS. The sooner the application is submitted, the sooner the preparer will receive authorization to participate in the program. KRC does not require a separate application.

Persons who wish to obtain a copy of KRC's handbook for electronic filers may call (502) 564-5370. This publication may also be downloaded from KRC's Web site at <http://www.state.ky.us/agencies/revenue>.

Form 8453-K is the signature portion of the electronic return. It must be completed and signed by all appropriate parties before the return is transmitted electronically. Form 8453-K:

- authenticates the return;
- authorizes the electronic return originator (ERO) to file the return electronically on behalf of the taxpayer;
- serves as a transmittal for the associated nonelectronic documents that will be stapled to Form 8453-K; and
- authorizes KRC to inform the ERO whether a taxpayer's return has been accepted.

Again during the 2001 filing season, preparers can select the frequency of mailing completed Forms 8453-K to KRC. Every ERO will receive an 8453-K Mailing Election Form that should be completed and returned to KRC. The 8453-K Mailing Election Form will allow the ERO the option of electing to mail completed Forms 8453-K:

- once electronic return acknowledgment is received from KRC,
- monthly,
- quarterly, or
- at the end of the filing season.

Electronic Fund Transfer (EFT)

KRC accepts the electronic transfer of funds for payment of sales and use, withholding, and bank franchise taxes. Detailed instructions for payment by EFT will be sent to all new registrants. Taxpayers who wish to participate in this program should register with KRC's Electronic Commerce Group (ECG). To obtain an application, or for additional information, please contact the ECG at (502) 564-6020 (voice) or (502) 564-9897 (fax).

Common EFT errors include:

- ✍ Incorrect period end date is transmitted. The period end date is the last date of the reporting period, not the due date of the return.
- ✍ Account number and/or tax type is incorrect. Make sure the account number entered is the correct account number for the type tax being paid.
- ✍ Information formatted incorrectly.
- ✍ Money submitted via wire transfer without authorization.



Estimated Tax Payment Deadlines

Taxpayers are reminded that final 2000 quarterly estimated tax payments of 25 percent are due on Jan. 15, 2001. Final 1999 estimated corporation income tax payments of 25 percent are due on Dec. 15, 2000.

Taxpayers who have not yet made their April 15, June 15, or Sept. 15, 2000, estimated payments should submit those payments as soon as possible to minimize underestimation penalties.

Court Case Updates

Corporation Income and License Tax—In **Jim Beam Brands Co. v. Revenue Cabinet**, 2000-SC-00044, a corporation income and license tax case, the question was whether the Jim Beam Brands Co.'s sales to overseas military clubs were sales to the United States government and thus includible in the numerator of the sales factor for purposes of the corporation income and license tax apportionment computations pursuant to KRS 141.120(8)(c) and 136.070(3)(d)2. Affirming a decision of the Franklin Circuit Court, which had reversed a decision of the Kentucky Board of Tax Appeals (KBTA) adverse to KRC, the Kentucky Court of Appeals held that military officers' clubs were indeed instrumentalities of the United States government and that the taxpayer's sales to those clubs were sales to the United States government within the meaning of KRS 141.120(8)(c) and 136.070(3)(d)2.

Jim Beam Brands Co. filed a motion for discretionary review of the Court of Appeals' opinion with the Kentucky Supreme Court. The Supreme Court denied that motion by an order entered on Sept. 20, 2000. This case, therefore, is now final.

Sales and Use Tax—On Sept. 28, 2000, the Kentucky Supreme Court rendered a decision in **Camera Center, Inc. d/b/a Murphy's Camera and Video v. Revenue Cabinet**, 1999-SC-0283-DG. This case concerned the construction and application of the sales and use tax exemption for machinery for new and expanded industry set forth in KRS 139.480(10) and 139.170 and Regulation 103 KAR 30:120.

In this case, Camera Center, Inc. d/b/a Murphy's Camera and Video ("Camera Center") operated camera stores and photo processing centers in Kentucky. Two of its locations had on-site photo processing laboratories and the other locations sent undeveloped film to those locations for processing.

Camera Center purchased new equipment for use in its photo processing operation and paid sales tax on these purchases. It later applied to KRC for a refund of the sales tax it had paid on the basis of its assertion that these purchases were exempt from tax as having been purchases of machinery for new and expanded industry.

KRC issued a final ruling denying Camera Center's refund request. The KBTA affirmed this final ruling. The Jefferson Circuit Court upheld the KBTA's decision and the Kentucky Court of Appeals affirmed the circuit court's action.

The KBTA and these courts agreed with KRC's position that the machinery for new and expanded industry exemption plainly required that the machinery in question be incorporated in a plant facility. In this case, the photo processing equipment was employed at locations that were predominantly retail in character and thus were not plant facilities.

The Kentucky Supreme Court's Sept. 28, 2000, opinion overturns these earlier decisions. The court held that as photo processing took place at the locations of Camera Center in question and as photo processing constitutes manufacturing, these locations were plant facilities that would permit application of the exemption. A plant facility, the court ruled, consisted of land, building, or factory at which manufacturing operations take place.

Three of the seven justices of the Supreme Court dissented from the court's decision in this case. The dissenting opinion agreed with the Cabinet that the plant facility language created a definite requirement in order for the exemption to apply and that plant facility under this requirement meant a single permanent location that is used almost exclusively for industrial manufacturing or industrial processing activities and does not include locations primarily retail in character. The majority's decision, the dissent noted, rendered the plant facility requirement superfluous.

Finally, the dissent noted that KRC's position in this case reflected a longstanding administrative construction of the exemption. This construction was in accord with the legislative intent at the time of the exemption's enactment and "[I]t is the function of the legislature, not this Court or [Camera Center], to change the statute's intent."

KRC has filed a petition for rehearing. Therefore, this case is not final.





KENTUCKY INCOME TAX
FORMS REQUISITION

FROM: Revenue Cabinet
Frankfort, KY 40620

The label at right will be used to mail your forms. **Do not detach.**
Please prepare a duplicate address below for our files.

Name _____
Street _____
City, State _____
and ZIP _____
Phone (____) _____
Date Ordered _____

TO: Name _____
Street _____
City, State _____
and ZIP Code _____

Check one: ☐ Individual ☐ Attorney ☐ CPA ☐ Tax Practitioner ☐ Other _____

Package K (contains all individual, fiduciary, partnership, corporation
and S corporation income tax forms, schedules and instructions) Quantity ➤

FORMS	ISSUANCE NO.	QUANTITY
740—Kentucky Individual Income Tax Return	42A740	*
740/740-S/740-EZ—Instructions	42A740-S11	
740-EZ—Kentucky Individual Income Tax Return	42A740-EZ	*
740-S—Kentucky Individual Income Tax Return	42A740-S	*
740-X—Amended Kentucky Individual Income Tax Return	42A740-X	
740-NP—Nonresident or Part-Year Resident Income Tax Return	42A740-S9	
Schedules A & ME (740-NP)—Itemized Deductions and Moving Expense Reimbursement	42A740-S9 (A & ME)	
740-NP Packet	42A740-S10	
740-NP-R—Nonresident Income Tax Return—Reciprocal State	42A740-S9-R	
740-ES—2001 Estimated Tax Voucher	42A740-ES	*
740-ES—Instructions	42A740-S4	
Schedule A (740)—Itemized Deductions	Schedule A	*
Schedule J—Kentucky Farm Income Averaging	42A740-J	*
Schedule M—Kentucky Federal Adjusted Gross Income Modifications	42A740-M	*
Schedule P—Pension Income Exclusion	42A740-P	*
Schedule TC—Tax Computation Schedule	42A740-TC	*
Schedule UTC—Unemployment Tax Credit	42A740-UTC	*
1045-K—Kentucky Net Operating Loss Application for Income Tax Refund	42A740-S20	*
1045-K—Instructions	42A740-S20(I)	
2210-K—Underpayment of Estimated Tax by Individuals	42A740-S1	*
4972-K—Kentucky Tax on Lump-Sum Distributions	42A740-S21	*
8453-K—Kentucky Individual Income Tax Declaration for Electronic Filing	42A740-S22	
740-V—Kentucky Electronic Payment Voucher	42A740-S23	
8582-K—Kentucky Passive Activity Loss Limitations	42A740-S18	*
Application for Extension of Time to File Return (Individual, Partnership, Fiduciary)	40A102	

***Forms shaded and marked with an
asterisk(*) are provided at no charge.**

Total Forms—Page 1
Total Forms—Page 2
Total Forms Provided at No Charge
Total Forms ➤

Package K x \$6.00 (each additional \$5.00)
Total Forms x \$ each (see Forms Cost Schedule below)
Envelopes x \$3.50 per group of 100
Subtotal
Sales Tax (6%) (Kentucky residents only)

Forms Cost Schedule

1 - 24	NC
25 - 74	\$.09 each
75 - 100	.07
101 - 200	.06
201 - 500	.05
over 500	.04

TOTAL ➤

Make check payable to: Kentucky State Treasurer
Mail order form and check to: Kentucky Revenue Cabinet
FORMS
P.O. Box 518
Frankfort, Kentucky 40602-0518

FORMS	ISSUANCE NO.	QUANTITY
741—Kentucky Fiduciary Income Tax Return	42A741	
741—Instructions	42A741(I)	
741-D—Capital Gains and Losses	42A741-D	
Schedule K-1 (741)—Beneficiary's Share of Income, Deductions, Credits, etc.	42A741 (K-1)	
765—Kentucky Partnership Income Return	42A765	
765—Instructions	42A765(I)	
Schedule K-1 (765)—Partner's Share of Income, Credits, Deductions, etc.	42A765 (K-1)	
720—Kentucky Corporation Income and License Tax Return	41A720	*
720—Instructions	41A720(I)	
720S—Kentucky S Corporation Income and License Tax Return	41A720S	*
720S—Instructions	41A720S(I)	
Schedule K-1 (720S)—Shareholder's Share of Income, Credit, Deductions, etc.	41A720S (K-1)	*
720X—Amended Kentucky Corporation Income Tax and Corporation License Tax Return	41A720X	
720ES—Corporation Estimated Income Tax Voucher	41A720ES	*
720ES—Instructions	41A720-S4	
Schedule A (720)—Apportionment and Allocation	41A720A	*
Application for Extension of Time to File KY Corporation Income and License Tax Return	41A720SL	*
Schedule EZC—Kentucky Enterprise Zone Tax Credit	41A720EZC	*
Schedule HH—Housing for Homeless Families Deduction	41A720HH	*
Schedule RC—Application for Income Tax Credit for Recycling and/or Composting Equipment	41A720RC	*
Schedule RC(C)—Continuation Sheet for Schedule RC	41A720RC(C)	*
Schedule RC (K-1)—Pro Rata/Distributive Share of Recycling Equipment Tax Credit	41A720RC (K-1)	*
722—Election to File Consolidated Kentucky Corporation Income Tax Return	41A722	*
851-K—Kentucky Affiliations and Payment Schedule	41A851-K	*
Total Forms—Page 2 (enter here and on page 1)		➤
ENVELOPES (Available in groups of 100 only)		
Refund 6" x 9" Blue —Enter number of groups here and on page 1		➤
Payment 6" x 9" Yellow—Enter number of groups here and on page 1		➤

**Forms shaded and marked with an asterisk(*) are provided at no charge.*

IMPORTANT*

Use only forms **provided** by the Revenue Cabinet or an **approved** computer-generated version of this year's income tax forms. Data must be placed in specific areas on the return to be read correctly by Revenue's scanning and imaging equipment. ***Use of photocopies or faxed copies may delay refunds.***

Applies to forms shaded and marked with an asterisk().

University of Kentucky Income Tax Seminars Continue in December

The University of Kentucky College of Agriculture has five two-day income tax seminars scheduled during December. The registration fee is \$189 per person. Every participant receives a copy of the workbook, a Master Tax Guide, the KRC workbook, and various Internal Revenue Service publications.

The Kentucky Board of Accountancy has approved the seminars for 16 hours of CPE credit. Attorneys must apply directly to the Kentucky Bar Association for CLE credit.

Registration brochures were mailed in mid-September. Anyone who attended a tax workshop in the past two years should have received a brochure in the mail. Brochures are available in local county extension offices, or can be obtained by contacting: UK Income Tax Workshop; 640 South Broadway, Suite 210; Lexington, KY 40508; (859) 252-3769. *Please note that this address and phone number have changed from the previously reported address.*

Workshop dates and locations are as follows:

DATE	LOCATION
Nov. 30-Dec. 1	Louisville Executive Inn West 830 Philips Lane
Dec. 4-5	Burlington (Northern Kentucky) Boone County Extension Office 6028 Camp Ernst Rd.
Dec. 5-6	Hopkinsville Holiday Inn 2910 Ft. Campbell Boulevard
Dec. 11-12	Lexington Holiday Inn North 1950 Newtown Pike
Dec. 12-13	Maysville Ramada Inn 484 Moody Drive



Employers Encouraged to Release Forms W-2/K-2 Early

In an effort to speed the issuance of individual income tax refunds, employers are encouraged to release Employee's Wage and Tax Statements, Forms W-2/K-2, at the earliest possible date. This allows taxpayers to file their income tax returns earlier, thereby avoiding backlogs and delay of refunds. Fewer returns are filed at the beginning of the tax season than near the April 15 deadline. By increasing the number of tax returns filed early, refunds can be processed more efficiently.

Kentucky Tax Alert is a bimonthly publication printed on recycled paper, the costs of which are paid from state funds.

Comments, suggestions and mailing list additions or corrections should be addressed to the Public Information and Communication Services Branch, Revenue Cabinet, Station 14, Frankfort, Kentucky 40620, (502) 564-4592.

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KRC can be found on the World Wide Web at
<http://www.state.ky.us/agencies/revenue>

*To provide courteous, accurate
 and efficient services for the benefit of
 Kentucky and its citizens, and admin-
 ister the tax laws of the Common-
 wealth in a fair and impartial manner.*

**Kentucky Revenue Cabinet
 Mission Statement**

COMMONWEALTH OF KENTUCKY
 REVENUE CABINET
 FRANKFORT, KENTUCKY 40620

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